



PRESS RELEASE

Internal Revenue Service - Criminal Investigation *Chief Richard Weber*

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Contact: *CI-HQ-COMMUNICATIONSEDUCATION@ci.irs.gov
IRS – Criminal Investigation

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Former President of North Carolina Board of Funeral Service and His Business Partner Sentenced to Prison for Tax Fraud

The former President of the North Carolina Board of Funeral Service and his business partner were sentenced to prison yesterday for their involvement in a conspiracy to defraud the Internal Revenue Service (IRS), announced Acting Assistant Attorney General Caroline D. Ciralo of the Justice Department's Tax Division and U.S. Attorney Ripley Rand of the Middle District of North Carolina.

Kenneth Dale Stainback, 62, of Burlington, North Carolina, the secretary of McClure Funeral Service (McClure) and former president of the North Carolina Board of Funeral Service, was sentenced to 14 months in prison and three years of supervised release. Stephen Ray Smith, 60, of Mebane, North Carolina, the president of McClure, was sentenced to six months in prison and three years of supervised release. The court ordered both defendants to pay \$158,530.11 in restitution to the IRS for the corporate tax loss. The court also ordered Stainback and Smith to pay \$12,213 and \$116, respectively, in restitution to the IRS for their individual tax loss. The court also ordered Stainback and Smith to pay \$8,000, respectively, in fines.

According to court documents and statements in court, Stainback and Smith conspired to defraud the United States by filing false corporate tax returns for McClure. Stainback, Smith and another co-conspirator bought McClure in 2004 and began diverting gross receipts from the business and omitting that income from the corporation's tax returns. The co-conspirators opened a checking account at Mid-Carolina Bank for the purpose of diverting funds from McClure, including commission checks payable from insurance providers and checks from clients for payment of services. The co-conspirators wrote checks to themselves from this account, with Stainback and Smith receiving the vast majority of the diverted funds. Stainback also opened another bank account at SunTrust Bank, which he used to embezzle additional funds from McClure without the knowledge of his co-conspirators. The co-conspirators also pocketed cash payments from clients of McClure. To conceal discovery of their scheme, the co-conspirators deleted and altered invoices in the business's accounting system. Even after they were aware that the IRS was conducting an examination of the business, Stainback and Smith continued to divert funds from McClure.

“As Messrs. Stainback and Smith have learned, cheating the IRS and stealing from the U.S. Treasury brings serious penalties, including prison, fines and the potential loss of professional licenses,” said Acting Assistant Attorney General Ciraolo. “Taxpayers who think they can skim funds from their own businesses and conceal their criminal conduct by falsifying records underestimate the ability of the IRS and Department of Justice to detect, investigate and prosecute these crimes.”

During the 2009 through 2012 fiscal years, Stainback, Smith and the other co-conspirator diverted more than \$419,000 from McClure. Because the co-conspirators also deleted and falsified invoices, the amount diverted underestimates the amount the co-conspirators excluded from the corporate tax returns. The co-conspirators caused a corporate tax loss of \$158,530.11 and additional individual tax loss based on their failure to report the diverted funds on their individual income tax returns.

Acting Assistant Attorney General Caroline D. Ciraolo and U.S. Attorney Ripley Rand commended special agents of IRS – Criminal Investigation who investigated the case, and Assistant U.S. Attorney Clifton T. Barrett of the Middle District of North Carolina and Trial Attorney Kathryn A. Kimball of the Tax Division, who prosecuted the case.

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